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C O N F I D E N T I A L SECTION 01 OF 02 HAVANA 000666

SIPDIS

STATE FOR WHA/CCA

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TAGS: ECON EAGR PGOV CU

SUBJECT: PRIVATE FARMERS' MARKETS PUT ON ALERT

REF: A. HAVANA 631 ("THE END OF THE PAPA STATE IN CUBA")
1B. 08 HAVANA 790 ("BACKWARD REFORMS THROUGH PRICE
CONTROLS")

Classified By: CDA: Charles Barclay for reasons 1.4 (b) and (d)

11. (SBU) SUMMARY: The Government of Cuba (GOC) is threatening one of the only free market - and thus well functioning - parts of its economy in the supply and demand (private) farmers' markets. Instead of liberalizing the commercialization of food as called for by other recent GOC actions to lease idle land, close workplace cafeterias, and restrict rations (Ref A), the GOC is proposing additional regulations through fixed prices or state management. These changes were rumored to have started on November 1, but have been delayed until at least January 2010. According to the GOC, the new measures are intended to lower prices and eliminate illegal intermediaries and corrupt vendors. However, the controls are more likely to reduce the incentives for farmers to increase production, and therefore dry up the available supply of agricultural products. END SUMMARY.

Rumors of a Crackdown on Private Markets

12. (SBU) In October and November 2009, there has been much public and private speculation that the GOC may choke off one of the few legitimate private sector activities. Rumors that the end of the private markets was near started soon after the 2008 hurricanes severely limited domestic production (Ref B) and the GOC implemented "provisional" controls, such as price caps and limits on the amount any one person could buy.

13. (SBU) Furthering speculation that the private markets were under the gun, official reports have resurfaced in recent months accusing private markets of artificially maintaining higher prices through collusion, speculation resulting in huge profits, and generally cheating customers. These complaints are similar to those that resulted in the end of a previous experiment with free farmers markets from 1980-1986, and in the aftermath of the 2008 hurricanes which again clamped down on private markets and neighborhood stalls (the latter never reopened). Although the official press has also identified deficiencies in the state-owned markets (including questionable hygiene, poor quality of goods, late payments to farmers, and bad customer service), their focus

has been to fix these in order to dissuade Cubans from having to subject themselves to high prices and "thievery" at the private markets.

¶4. (SBU) The GOC responded to the rumors on November 2 with two full pages clarifying that it would not eliminate (regulated) private markets altogether, but stressing that the state markets would remain the preferred option.

Although the outcome is not clear, the management of several private markets in Havana met with vendors and confirmed that changes planned for November 1 have now been delayed until at least January 2010. (Note: Most private markets are managed by either a cooperative or state entity that leases vendor stalls either directly to farmers or to a farmer's representative. On the other hand, vendors at state markets are all state employees. End Note.) Particularly targeted are private vendors who are not clearly representing specific farmers but are instead purchasing their products from various farmers, which is illegal but was previously tolerated. In addition, the GOC is focusing on the illegal middlemen who buy the highest quality goods from farmers and deliver them to market in a timely fashion, something that would be a legitimate business in most other countries but is considered "anti-revolutionary" and "profiteering" in Cuba.

Identify the Solution, Then Create a Problem

¶5. (SBU) While our Cuban contacts agree that some vendors at the private markets are less than honest and prices can be out of reach for many Cubans, the obvious solution is to

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create more competition not less. All of the best produce finds its way to the handful of free markets in Havana, most of which is not available anywhere else in Cuba. The most well-to-do Cubans and, in particular, foreign residents and visitors flock to these markets willing and able to pay higher prices. One Cuban contact told us that the GOC has once again identified the solution (free markets) and, by threatening to close or take them over, has created a problem.

Supply and Demand Versus State Markets

¶6. (SBU) Farmers' markets were first allowed to operate in 1994 to permit state, cooperative, and private farmers to sell their products directly to the public after meeting government quotas. Cubans rely on farmers markets to supplement the 10-15 days worth of food supplied through the ration card, especially fruits and starches. The private markets are distinct from the state-run markets in that the farmers or their representatives, rather than state employees, do the selling. Prices are also allowed to fluctuate, which results in a higher quality, quantity, and prices of goods than those offered at state markets.

¶7. (U) Private markets are growing in popularity despite the higher prices. Private markets represent 26% of all agricultural sales in the markets (up from 17% in 2008) worth more than \$11.5 million (up from \$7.5 million in 2008). In contrast, sales at state markets are down from \$36 million in 2008 to \$33.5 million in 2009. The volume of products going to the private markets is growing even faster as tonnage tripled from 2008 to 2009, although 85% of agricultural goods are still sold at state markets.

COMMENT

¶8. (C) In finding a way out of its acute economic predicament, the GOC should liberalize successful and popular

farmers' markets and other mechanisms to distribute locally produced agricultural products. It is the logical next step to the leasing of idle land to increase production, the closing of work place cafeterias, and changes to the ration card. However, the GOC is unable or unwilling to expand market reforms proven to deliver agricultural products from the farm to the home more efficiently. Pending regulations aimed at the relatively free private markets may simply be a misinformed attempt to recapture market share to ensure the availability of more affordable products to poorer Cubans while at the same time limiting profit making opportunities for intermediaries. At the very least, price controls and state management will decrease the incentive for farmers to produce high quality products above and beyond their government-mandated quotas.

BARCLAY